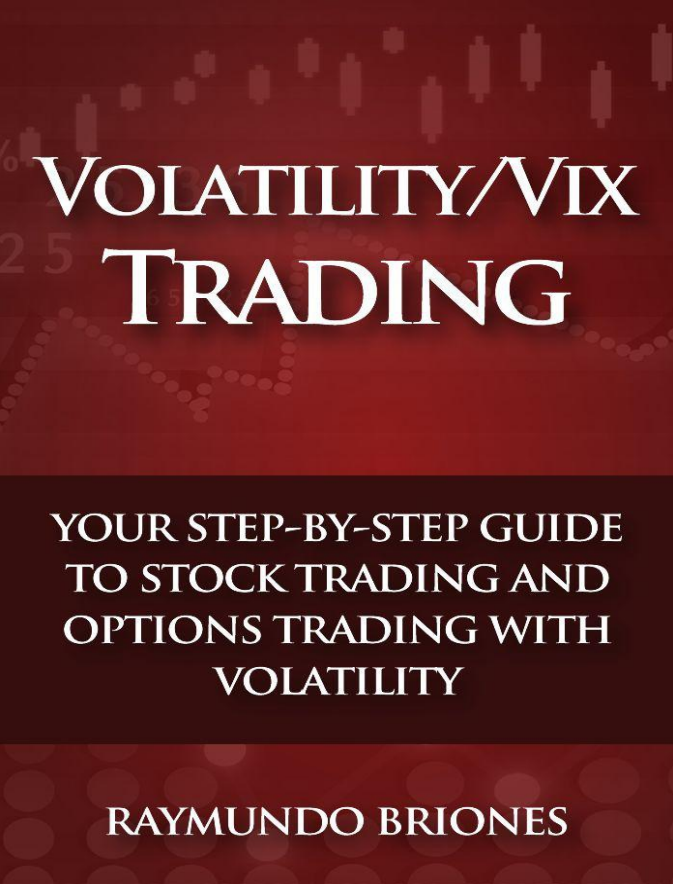


VISIT...

LANZAROTE
Caliente.COM

The background of the top half of the cover is a dark red color. It features faint, semi-transparent financial charts. At the top, there is a candlestick chart with several bars. Below it, there is a line graph with a series of dots connected by lines, showing an upward trend. Various numbers are scattered in the background, including '2.5', '6.5', and '10.5'.

VOLATILITY/VIX TRADING

YOUR STEP-BY-STEP GUIDE
TO STOCK TRADING AND
OPTIONS TRADING WITH
VOLATILITY

RAYMUNDO BRIONES

Volatility/Vix Trading

**Your Step-by-Step
Guide to Stock
Trading and Options
Trading with
Volatility**

Table Of Contents

Introduction

Chapter 1 – What Is Volatility?

Chapter 2 – The Volatility Index

Chapter 3 – Volatility as Insurance

Chapter 4 – How to Trade the VIX

Chapter 5 – Volatility Trading Step-by-Step

Chapter 6 – Identifying Market Trends

Chapter 7 – Warning & Tips: The Institutional Investors

Chapter 8 – Final Notes

Conclusion

Introduction

I want to thank you very much and congratulate you for downloading the book, *Volatility/Vix Trading— Your Step-by-Step Guide to Stock Trading and Options Trading with Volatility*.

This book is the ultimate beginner's guide to trading with volatility and the Volatility Index (VIX).

In this book, you'll discover what volatility is and how it works, and you'll learn step-by-step how to use volatility and VIX to identify market trends and trading opportunities.

Thanks again for downloading this book,
I hope you enjoy it!

Legal

© Copyright 2014 Zantrio, LLC. All rights reserved.

All rights reserved. This book contains material protected under U.S. copyright laws. Any unauthorized reprint or use of this material is prohibited. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system without express written permission from Zantrio, LLC.

Risk Disclaimer

Trading in any financial market involves substantial risk of loss and is not suitable for all investors. Any style of trading in any market condition is extremely risky and can result in substantial financial losses in a very short period of time. There is considerable exposure to risk in any transaction including but not limited to, the potential for changing political and/or economic conditions that may substantially affect the price or liquidity of a trade.

Trading is a challenging and potentially profitable opportunity for those who are

educated and experienced in trading. Before deciding to participate in the markets, you should carefully consider your objectives, level of experience and risk appetite. Most importantly, do NOT invest money you cannot afford to lose. Objective, experience, risk of loss, leverage, creditworthiness, limited regulatory protection, market volatility that may substantially affect the price or liquidity of a trade, communication failure, etc. could put you at risk for the loss of some or all of your capital and/or assets. The possibility exists that you could sustain a total loss of initial funds and be required to deposit additional funds to maintain your position.

We are not offering to buy or sell and of the financial instruments mentioned in any service we offer and we are not representing ourselves as a registered investment advisor or broker dealer.

We do not guarantee or represent that members acting upon any suggestion mentioned or discussed in any of the services we offer, will result in a profit. All decisions to act upon any suggestions made in any service we offer is the sole responsibility of the member.

We will not be held responsible or liable to members or any other parties for losses that may be sustained while

trading. YOUR trading and financial actions taken are solely 100% YOUR decision and responsibility.

We may hold positions in various financial instruments mentioned in any of the services we offer and are under no obligation to disclose when a position was acquired, the amount of position held or when a position is closed.

We are not an investment advisor, and we do not provide investing advice. All content provided is for information purposes only.

IN PLAIN ENGLISH: DON'T TRADE WITH MONEY YOU CAN'T AFFORD TO LOSE. WE DO NOT PROVIDE

ANY SPECIFIC OR PERSONALIZED INVESTING/TRADING ADVICE. YOU ARE COMPLETELY 100% RESPONSIBLE FOR ANY FINANCIAL/INVESTING/TRADING DECISION YOU MAKE. WE ARE NOT LIABLE WHATSOEVER IN ANY WAY, SHAPE OR FORM FOR ANY ACTION YOU TAKE. BY TRADING/INVESTING, YOU RUN THE RISK OF LOSING EVERYTHING YOU OWN. YOU KEEP YOUR GAINS, YOU PAY FOR YOUR LOSSES. END OF STORY.

Earnings Disclaimer

The products and services sold by

Zantrio, LLC are not to be interpreted as a promise or guarantee of earnings. All content provided is for information purposes only.

Any and all forward-looking statements on our website or in any of our products are intended to express our opinion of the earnings potential that some people may achieve. We make no guarantees that you will achieve any results from the ideas and techniques contained on our website or in our products.

To the extent that we included any case studies or testimonials on our website or in any of our products, you can assume that none of these stories in any way

represent the "average" or "typical" customer experience.

In fact, as with any product or service, we know that some people will purchase our products but never use them at all, and therefore will get no results whatsoever. You should therefore assume that you will obtain no results with this material.

YOU FULLY AGREE AND UNDERSTAND THAT COMPANY IS NOT RESPONSIBLE FOR YOUR SUCCESS OR FAILURE AND MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND WHATSOEVER THAT OUR

PRODUCTS OR SERVICES WILL
PRODUCE ANY PARTICULAR
RESULT FOR YOU. Zantrio, LLC IS
NOT AN INVESTMENT ADVISOR
AND DOES NOT PROVIDE
INVESTMENT ADVICE. ALL
CONTENT IS PROVIDED FOR
INFORMATION PURPOSES ONLY.

Bonus: Download the Free Trading Toolkit

Get instant access to free cheatsheets, workbooks and guides to help you become a profitable trader or investor.

As a special thanks for downloading this book, we've put together a toolkit of exclusive resources, including...

-
(
(
(
(
(

1
1
-
]
(
f
l
(
t
s
-
(
s

1
s
f
f
1
a
c
t
a
t
1
1
y
-
1
-
]
1
1

[**Click to Download the Free
Trading Toolkit**](#)

or visit:
www.zantrio.com/kindle

Chapter 1 – What Is Volatility?

Whatever financial asset you consider it has a price every day or every moment of the day. Clearly the prices change every day or every minute of each day and these movements are represented in price charts.

Every day the prices reach a minimum and a maximum level and this difference is called **fluctuation**. If in a certain period of time, such as three months, the fluctuation is higher than that registered in the same previous period of time, we

say that the **volatility** is higher. Let's take an example: if today the currency pair EUR/USD has a maximum price of 1.40 and a minimum of 1.37, whereas yesterday it had a minimum of 1.385 and a maximum of 1.40, you can see that the volatility today is higher (0.03 versus 0.015).

An In-Depth Look at Volatility

Usually, volatility is connected to the uncertainty of the financial markets or to an unstable economic outlook of a company, country or macroeconomic area. This normally happens when there's a crisis or some economic or macroeconomic factors that may generate it.

Psychologically, many traders and investors are forced to buy or sell their financial assets to protect their capital, or to reduce their losses by opting for shelter goods such as gold or the US

dollar. When the markets do not have a clear direction like an uptrend or downtrend, the prices look like a rollercoaster and they fluctuate dramatically.

Even though it can be seen as harmful for your investment, volatility can also represent a great opportunity to make some profits if you are able to take advantage of it.

In order to measure the relative volatility of a certain stock to the market, the **Beta** is used. This parameter is related to the relevant benchmark: if the stock is included in the S&P 500's list, the reference will be the S&P 500 index.

How it is calculated? It considers the returns of the stock versus the index ones: if the security has a beta value of 1.2 this means it moved 120% for every 100% move in the benchmark. If a stock has a beta value of 0.8, it moved 80% for every 100% index move.

However, the most important parameter used to measure volatility is the so-called **Volatility Index (VIX)**.

Chapter 2 – The Volatility Index

What is the **Volatility Index**? It is used to identify the market expectations in the near term. It has been considered for a long time as a valuable tool to understand investor sentiment and volatility, or to measure the perceived risk of the investors. If they are expecting or perceiving a higher risk or if they are mostly buying protection put options, the VIX will be higher and the market will probably drop.

In fact, the VIX grows every time the

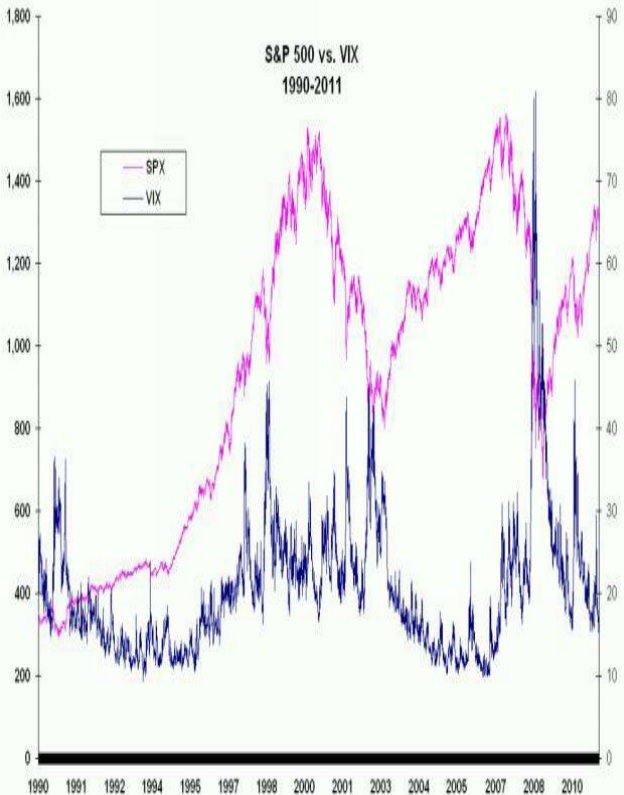
markets are facing uncertainty or are “nervous” and decreases whenever the markets are growing: there is a contrarian correlation between the two factors. So if you look at the VIX and observe its movements, you will probably know the direction of the markets.

Let's take an example: if you are an investor who has bought a lot of stocks and you are now concerned that the market could face a downwards trend, you would buy protection put options to protect your stock investments. Moreover you would stop buying stocks since you could lose money if the market prices drop. If a lot of large investors

stop their purchases in this way, the markets won't grow and they will probably experience a downtrend.

Chapter 3 – Volatility as Insurance

S&P 500 vs. VIX
1990-2011



As it is considered an important contrarian signal, let's consider the following chart.

.

As you can see there is not always an adverse correlation, but usually when the VIX started to grow, the S&P 500 index fell. We can see it in 1990, 1998, 2002-2003 and most of all in 2008. During these times, there were financial “storms” like the Gulf War, the Japanese stock market crisis, the scandals of Enron and WorldCom, the new war in Iraq and finally the sub-prime crisis that affected worldwide stock markets and economies.

It could be considered as a type of insurance: it starts growing when the investors perceive a higher degree of uncertainty or when the markets could drop. What is needed now is to learn how and when to use the VIX: when it is low, it can create excellent opportunities to buy protective put options at a reasonable price.

This is the best time to protect your portfolio: when the price is low and volatility could grow in the future.

Chapter 4 – How to Trade the VIX

When can the VIX be considered low? Normally when it's located below 15, it's a good time to play the VIX.

In fact, when the VIX is as low as 15, the markets have grown so much that they are ready to go down at a certain point as it's likely that they have reached a peak. This will certainly happen but it's difficult to predict when.

When the VIX is low, in order to trade in the simplest way, you need to consider the VIX futures- exchange traded notes (ETN) and exchange traded funds (ETF)

such as the iPath S&P 500 VIX Short-Term Futures ETN (NYSE: VXX) or the S&P VIX Mid-Term Futures ETN (NYSE: VXZ).

Why are we trading them? The ETFs and ETNs are cheaper and the futures can be a good guideline for what the market directions might be. If you buy at a cheaper price, your risk is lower in terms of potential loss, but your profits, although somewhat protected, could also be more limited.

You should be protected when the bullish period is over or when some economic news might cause a slowdown. The VIX will start to grow, and the VXX and the VXZ with it.

If you buy puts when the VIX is low, it's like betting that the market is almost near the top and will probably go down. Since the VIX movements are the opposite of the S&P 500 index, when the VIX is going up, it is most likely that the S&P 500 will start dropping.

Another option is to buy leverage inverse ETFs - such as ProShares UltraPro S&P 500 (NYSE: UPRO) or ProShares UltraShort S&P 500 (NYSE: SDS). These ETFs will allow you to make profits even when the markets are dropping.

Although the VIX is a stock market volatility index, you need to understand that it's not that different from any other

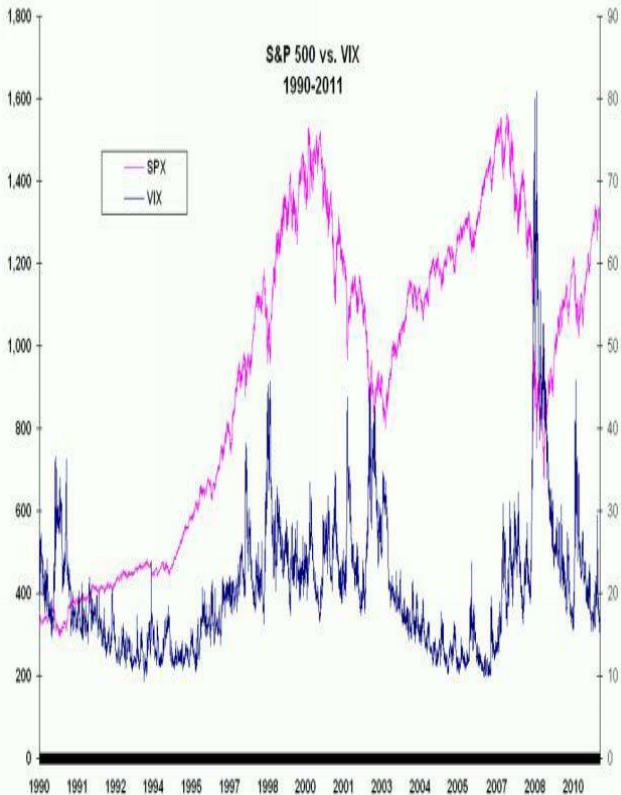
investment tool. It can change in response to the news, announcements, economic data and dynamic market expectations.

When you invest in a VIX-linked product, in fact, you should keep in mind that it is a short-term investment and carries consequent risks. This means you should act fast and not wait too long when it comes to making investment decisions.

The most important thing you need to consider is that **you cannot use the VIX by itself**: you need to use it together with the S&P 500 index.

Chapter 5 – Volatility Trading Step-by-Step

S&P 500 vs. VIX
1990-2011



During panic times, the VIX tends to move more aggressively than the stock markets. Let's re-check the same chart.

As you can see, during the financial crisis of 2008, the VIX grew by more than 300% versus a total drop of the S&P 500 of around 50%. What does this mean? It means that the VIX movements are not proportional to the ones of the stock market. On average, a 10% decrease in the stock market index may cause a VIX increase of between 30% and 50%.

So the first point you need to consider is

that the **VIX reacts more aggressively and not proportionally to the S&P 500.**

The second point consists in the **identification of sentiment extremes.** As we have already seen, if we consider the highs of the stock markets or the lows of the VIX, we can identify fear and complacency in the market investors and this normally means an upcoming reversal of the S&P 500.

However, sometimes it can take longer before the reversal occurs. If we come back to the chart, you may have noticed that the VIX created something of a range market and stayed for a long time between 10 and 15, values that are

generally considered to indicate a potential and upcoming reversal in the S&P500.

How could you identify whether there's a possibility of reversal? You need to draw two lines: the first one is the resistance line corresponding to the high reached around 2006 and the other is the support line corresponding to the low reached in 2006.

You can see that the VIX broke the resistance line in the second half of 2007 and created a second range market with a resistance line around 30. In 2008 this second resistance line was again overcome by the VIX which reached 80.

After reaching that peak twice, the VIX dropped to the levels of 2007, except for another peak of 50. If you also look at the S&P 500 trend, you can see that the VIX movements are inverse compared to the S&P500, and the movements of the stock index may help you in your investment decisions.

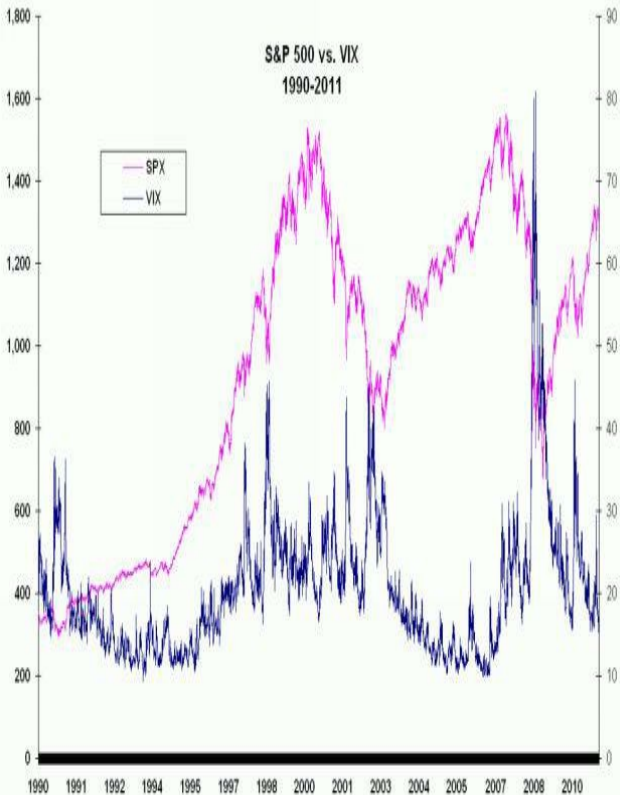
What should you have done?

- When the VIX was low, you could have bought some protection put options (or leverage inverse ETFs) and sold the stocks when the resistance line was broken.
- When the VIX was extremely high, it was a good chance to buy stocks

or some call options.

Chapter 6 – Identifying Market Trends

S&P 500 vs. VIX
1990-2011



The VIX can also be useful to confirm a market trend. Let's take the same chart.

As you can see, every time the VIX peaks, it corresponds to a low or drop in the stock market. If you focus on the period 2003-8, you can see that the stock market started to grow again after the tensions of the war in Iraq in 2003 and the scandals of Enron and WorldCom that affected Wall Street.

The VIX dropped to the minimum levels and then grew again: you can also see that in 2007 the VIX started to grow, indicating a stock market reversal. The

VIX increase was confirmation of investor sentiment that the markets would drop significantly in 2008 (the fear was increasing and in fact “exploded” in September 2008), in anticipation of the sub-prime crisis that affected worldwide economies, but especially those in Europe and North America.

The S&P index, in fact, dropped to the levels reached in 1996.

You can see another market confirmation in 2009: the markets, after the low of September 2008, started to run again, and the VIX started to decrease significantly again.

Please be aware that when the VIX movements are in a range, it means that typically the volatility is not confirming the market movements (the so-called divergence) and the trend could be short-lived. When it's more evident, it is more likely to be confirming the market trend.

Chapter 7 – Warning & Tips: The Institutional Investors

We have established that the VIX measures the fear or the complacency of the markets towards the financial or economic situation. However, how can a single investor understand how large the VIX movement might be? Or how long a move could last?

A significant part of the answer concerns the so-called “Institutional Investor Selling” and to what extent it is occurring at the same time. This index is

determined by a three-day exponential moving average and a six-day weighted moving average. These two averages design the short term selling trend by institutional investors.

This indicator has to be compared to, and might even anticipate, the VIX movement. It is important to understand what is going on in the market as this can help in understanding where the VIX will go.

The Institutional Investors normally determine the market trend, since they are those institutions (banks or even central banks) that move enormous quantities of money and are able to

determine an uptrend or a downtrend, speculative movements or an increase or drop of a single company security.

These indicators can tell us many things but not all: so it's important to use more charts in order to get the whole picture and make the correct investment decision.

One prudent rule is that you should never go against what the Institutional Investors are doing as that would probably mean a loss for you. You are a small investor compared with these Goliaths with enormous amounts of money at their disposal. The general rule is to follow what they are doing.

Chapter 8 – Final Notes

The VIX is useful to confirm a market direction and can be a valuable signal to understand where the markets could go. However, it should not be used alone to determine your investment decisions: you need to compare it to the S&P 500 index and also use the Institutional Investor Selling index which can anticipate big investor sentiment.

However, uptrends in stock markets should be confirmed by a VIX downtrend, and stock market downtrends by an increase in the VIX. If these

correlations are broken, it is likely that the market direction will be unsustainable in the short term and that a possible market trend is just a short-term one. This would probably indicate a range market.

A good approach in that case is to use price action trading.

When the VIX gets close to a peak or a low, the current market trend could experience a reversal, but this reversal does not happen immediately as you saw in the previous chart. In fact, when the VIX reaches a range level of between 10 and 15 or goes over 30, it could grow or drop, but it is necessary as usual to also

check the S&P 500 index to get the overall picture in order to try to predict a direction.

It is better to use more indicators and indexes together in order to make the best decisions, and remember not to go against the Institutional Investors since you could lose a lot of money.

Conclusion

Thank you again for downloading this book!

You should now have the knowledge you need to get started trading use volatility and VIX.

The next step is to take action!

Finally, if you enjoyed this book, please take the time to share your thoughts and post a review on Amazon. It'd be greatly appreciated!

Thank you and good luck!

Bonus: Download the Free Trading Toolkit

Get instant access to free cheatsheets, workbooks and guides to help you become a profitable trader or investor.

As a special thanks for downloading this book, we've put together a toolkit of exclusive resources, including...

-
(
(
(

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100
101
102
103
104
105
106
107
108
109
110
111
112
113
114
115
116
117
118
119
120
121
122
123
124
125
126
127
128
129
130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177
178
179
180
181
182
183
184
185
186
187
188
189
190
191
192
193
194
195
196
197
198
199
200
201
202
203
204
205
206
207
208
209
210
211
212
213
214
215
216
217
218
219
220
221
222
223
224
225
226
227
228
229
230
231
232
233
234
235
236
237
238
239
240
241
242
243
244
245
246
247
248
249
250
251
252
253
254
255
256
257
258
259
260
261
262
263
264
265
266
267
268
269
270
271
272
273
274
275
276
277
278
279
280
281
282
283
284
285
286
287
288
289
290
291
292
293
294
295
296
297
298
299
300
301
302
303
304
305
306
307
308
309
310
311
312
313
314
315
316
317
318
319
320
321
322
323
324
325
326
327
328
329
330
331
332
333
334
335
336
337
338
339
340
341
342
343
344
345
346
347
348
349
350
351
352
353
354
355
356
357
358
359
360
361
362
363
364
365
366
367
368
369
370
371
372
373
374
375
376
377
378
379
380
381
382
383
384
385
386
387
388
389
390
391
392
393
394
395
396
397
398
399
400
401
402
403
404
405
406
407
408
409
410
411
412
413
414
415
416
417
418
419
420
421
422
423
424
425
426
427
428
429
430
431
432
433
434
435
436
437
438
439
440
441
442
443
444
445
446
447
448
449
450
451
452
453
454
455
456
457
458
459
460
461
462
463
464
465
466
467
468
469
470
471
472
473
474
475
476
477
478
479
480
481
482
483
484
485
486
487
488
489
490
491
492
493
494
495
496
497
498
499
500
501
502
503
504
505
506
507
508
509
510
511
512
513
514
515
516
517
518
519
520
521
522
523
524
525
526
527
528
529
530
531
532
533
534
535
536
537
538
539
540
541
542
543
544
545
546
547
548
549
550
551
552
553
554
555
556
557
558
559
560
561
562
563
564
565
566
567
568
569
570
571
572
573
574
575
576
577
578
579
580
581
582
583
584
585
586
587
588
589
590
591
592
593
594
595
596
597
598
599
600
601
602
603
604
605
606
607
608
609
610
611
612
613
614
615
616
617
618
619
620
621
622
623
624
625
626
627
628
629
630
631
632
633
634
635
636
637
638
639
640
641
642
643
644
645
646
647
648
649
650
651
652
653
654
655
656
657
658
659
660
661
662
663
664
665
666
667
668
669
670
671
672
673
674
675
676
677
678
679
680
681
682
683
684
685
686
687
688
689
690
691
692
693
694
695
696
697
698
699
700
701
702
703
704
705
706
707
708
709
710
711
712
713
714
715
716
717
718
719
720
721
722
723
724
725
726
727
728
729
730
731
732
733
734
735
736
737
738
739
740
741
742
743
744
745
746
747
748
749
750
751
752
753
754
755
756
757
758
759
760
761
762
763
764
765
766
767
768
769
770
771
772
773
774
775
776
777
778
779
780
781
782
783
784
785
786
787
788
789
790
791
792
793
794
795
796
797
798
799
800
801
802
803
804
805
806
807
808
809
810
811
812
813
814
815
816
817
818
819
820
821
822
823
824
825
826
827
828
829
830
831
832
833
834
835
836
837
838
839
840
84

§
1
§
§
f
u
é
C
1
é
1
1
y
-
1
.
]
1

1
(
(
v
(
v
:
1
(
1

[Click to Download the Free
Trading Toolkit](#)

or visit:
www.zantrio.com/kindle

Table of Contents

[Introduction](#)

[Bonus: Download the Free Trading Toolkit](#)

[Chapter 1 – What Is Volatility?](#)

[Chapter 2 – The Volatility Index](#)

[Chapter 3 – Volatility as Insurance](#)

[Chapter 4 – How to Trade the VIX](#)

[Chapter 5 – Volatility Trading Step-by-Step](#)

[Chapter 6 – Identifying Market Trends](#)

[Chapter 7 – Warning & Tips: The Institutional Investors](#)

[Chapter 8 – Final Notes](#)

[Conclusion](#)